

This record is a partial extract of the original cable. The full text of the original cable is not available.

300913Z Jan 06

UNCLAS SECTION 01 OF 03 BANGKOK 000551

SIPDIS

STATE FOR EAP/MLS AND EB
STATE FOR EB/MGOODMAN
TREASURY FOR OASIA
COMMERCE FOR 4430/EAP/MAC/OKSA
STATE PASS TO USTR FOR WEISEL

E.O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [EFIN](#) [TH](#)

SUBJECT: MEGAPROJECTS CONFERENCE PRODUCES MORE SMOKE THAN LIGHT

REF: 05 BANGKOK 2137

05 BANGKOK 3463
05 BANGKOK 7124

1. Sensitive but unclassified. Please handle accordingly.
Not for internet distribution.

2. (SBU) Summary. Led by Prime Minister Thaksin, the RTG hosted a conference to inform international companies and the Bangkok diplomatic corps about the "megaprojects" infrastructure development program. To woo those bidders with "cutting-edge and appropriate technology," Thaksin has - without reference to parliament - swept aside the need for bidders to abide by Thai government procurement laws. However, the nature of the RTG's programs are so broadly defined and the parameters for a successful bid so unclear that most companies are either skeptical about the process or unsure where to begin. The manifest ability of Thaksin to liberalize the economy based on cabinet decree could be considered positive in light of the degree of liberalization that will be required if our FTA negotiations are successful. But we question the durability of measures taken in this fashion; they could just as easily be reversed by a new government. We are also concerned that FTA implementation via decree could be perceived by many Thais as an undemocratic bypassing of the parliament abetted by the USG. End Summary.

"The Potential Our Synergy May Bring"

3. (U) On January 26, about 1300 representatives of international companies and foreign diplomats attended the RTG's unveiling of "Thailand: Partnership for Development", a call by Prime Minister Thaksin to the world to help turn Thailand into "a modern, competitive, knowledge-based economy." Thaksin's stated goal is to "engage in a global search to find the best and most suitable talents in the world to be our partners in development." This is the latest iteration of the US\$43 billion, five-year "megaprojects" infrastructure development program which the Thaksin government has been touting for the last year (Ref A and B).

4. (U) Following the PM's brief opening remarks, the meeting was divided into five groups with relevant ministry officials to discuss projects under their jurisdiction:

- Infrastructure and construction with a focus on expanding Bangkok's mass transit system and creating an integrated, nationwide water resource management system.
- Natural resources and environment focusing on waste-to-energy technology, creation of a bio-diversity database and a digital map of natural resources.
- Information and communication technology for the creation of a government virtual private network and undefined software for various ministries. Also "e-education" for distance learning programs.
- National defense, largely the packaging of a series of planned weapons procurement programs.
- Agriculture, science and technology, culture and public health services, to include food traceability, modernization of the tuna and dairy industries, development of alternative energy resources and establishment of "world class" universities and medical service centers including research and development facilities.

"The Scope of Our Cooperation is Virtually Boundless"

5. (U) There is no bidding process and no government-mandated specifications to comply with. Offers can comprise one aspect of a project, whether mentioned specifically as a need of the RTG or not, or include an entire sector. Technical proposals are required to be submitted by April 28

with financing proposals to follow one - two months thereafter. Due to an apparent concern that requiring a counter trade component to any proposal could mean not getting the best available technologies, counter trade is not required except for defense procurement. Every proposal will be reviewed by a relevant ministry "evaluating committee" comprised of bureaucrats, senior officials and "experts." Final consideration of proposals will be considered by a committee chaired by the PM. This approach is meant to assure companies of the transparency of the selection process.

16. (SBU) The reaction of companies and analysts with whom we have spoken is uncertainty at best and cynicism at worst. All averred that they have never seen an approach quite like this. Several mentioned that if the RTG is to undertake all projects which appear to have been identified, the US\$43 billion earmarked will not come close to covering the costs. Others asked how proposals will be weighed against each other; "they will be comparing apples and broccoli" said one. In response to the RTG's statement that projects will be judged based on their "return on investment, internal rate of return, appropriateness of the technology and financing flexibility offered" an executive of a large multinational asked us "which of these is most important? Not all these goals are mutually supportive. And how about goals like integration with existing projects, use of local suppliers and personnel. How important is rapid project completion versus the most cost efficient approach?"

"Public scrutiny by 63 million Thai People"

17. (SBU) Several executives expressed concern that this exercise is to provide cover for projects and contractors already secretly chosen by the government. One argued that his company would not want to submit any proprietary ideas for fear that the government could simply appropriate the approach and assign the project to another firm; that this is just a way for the RTG to get free feasibility studies. An analyst argued that the only firms that will make serious bids are those from such nations as China in which the government may have political motives for pursuing projects even if they are not profitable for the implementing companies. Several companies have told us that they will submit basic bids or "a statement of capabilities" rather than spend the time and money to prepare a detailed document. This would serve to indicate a general desire to appear supportive and interested without committing resources to what many perceive as too nebulous an approach to take seriously. Interestingly, the Thai language press has focused on Thaksin "selling the country to foreigners" rather than any other aspect of the event.

18. (SBU) As he has since the megaprojects were announced, Thaksin again promised that the government would maintain fiscal discipline by keeping the government debt/GDP ratio below 50 percent and the percent of the annual budget devoted to debt service below 15 percent. Many observers believe that his original plan was to finance much of the megaproject's cost through revenue generated by privatization of such assets as the EGAT, the electric utility. With the indefinite delay in EGAT IPO (Ref C), the RTG has developed the "tell us what financing you can arrange" approach to infrastructure construction. Initial indications are that the RTG may not have much success with this approach.

19. (SBU) Comment: The good news is that the RTG changed its previous fairly restrictive government procurement procedures to attract as many foreign companies as possible. Counter trade, local partner, "Buy Thai" and other previous requirements for selling to the RTG have all been waived for this particular set of bids. How this was done without an act of parliament to change or suspend the three relevant government procurement laws is unclear. The bad news is that this is another example of the PM having a broad vision of an end result but not a clear view of how to get there. If we ascribe the best intentions to this approach, it is an innovative way to allow companies the freedom to propose what they consider to be the best approach to a problem. But with the lack of project parameters, it is too broad for most companies to feel comfortable making a detailed proposal. At least one company assumed the worst, "all the doors are open for corruption because the powers that be can like a project simply because it benefits them." We expect that ties to ministries (or ministers) will prove a critical factor in determining contract recipients given the lack of other factors by which to compare competing bids.

10. (SBU) Thaksin's apparent willingness to dispense with normal government procurement practices (and law) could be a useful precedent for our FTA negotiations. In those negotiations, Thai negotiators have often argued an inability to proceed with some liberalization because of existing laws that prevent them from making commitments. The

megaprojects example demonstrates that the Thaksin government can dispense with restrictive trade law when they need to. On the other hand, we would not want the changes needed to comply with an FTA made via questionable and potentially short-duration legal maneuvers.